

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Periodic Reporting (UPS Proposal One)

Docket No. RM2020-9

COMMENTS OF THE PARCEL SHIPPERS ASSOCIATION

(DECEMBER 15, 2020)

The Parcel Shippers Association (PSA) appreciates the opportunity to comment on matters related to seasonal variations in costs raised by UPS Proposal One¹ and discussed at the September 29, 2020 technical conference in response to PRC Order No. 5738.²

First, the Postal Regulatory Commission (Commission) should reject the United Parcel Service (UPS) proposal to shift approximately \$500 million in institutional costs per year to competitive products because UPS's calculations are flawed. UPS Petition at 3, 39-41. UPS's proposal is based upon its flawed estimate that, on average in recent years, Postal Service costs have increased between November and December by about \$500 million more than the Cost and Revenue Analysis (CRA) would predict based upon changes in volume (the "expected cost increase"). *Id.* at 20-25.

UPS's calculation of the expected cost increase is wrong. UPS calculates the expected cost increase by multiplying volume changes from November to December (by

¹ Petition of United Parcel Service, Inc. for the Initiation of Proceedings to Make Changes to Postal Service Costing Methodologies (May 29, 2020) (UPS Petition),

² Order No. 5738, Notice and Order Establishing Comment Deadline (October 27, 2020).

class of mail for market-dominant classes and collectively for competitive products) by the annual average unit cost for the category from the CRA and then sums across these categories. However, because the CRA captures seasonal variations in costs (e.g., changes in unit costs through the year) in its annual average,³ applying an invariant annual average unit cost to individual months misrepresents how the CRA works and thus produces meaningless results.⁴

For example, the CRA directly attributes the higher Sunday package delivery costs incurred in December to packages and thus already captures the resulting higher December unit cost of package delivery.⁵ More generally, if the Postal Service handles a particular product in a more costly manner during a particular month, e.g., a higher percentage of the product is flown, USPS sampling systems (such as the In-Office Cost System and Transportation Cost System) will capture the more expensive handling and assign it to the product.⁶ By ignoring the ways that the CRA captures seasonal variation, UPS's method treats such cost increases as "unexplained" when, in fact, the CRA accounts for them.

Second, UPS's proposal to shift the entire \$500 million unexplained cost change to competitive products is inappropriate because, as explained by Dr. Bradley at the September 29 technical conference, the December increase in costs is not solely caused by competitive products. Bradley Presentation at 7-10. Thus, even if UPS had

³ Docket No. ACR2018, Annual Compliance Determination Report, Fiscal Year 2018 (April 12, 2019), at 123.

⁴ Performing this calculation at the class level for market-dominant products and collectively for competitive products is further flawed because there are substantial differences in unit costs within these broad categories. For example, within competitive products, a 3-pound, Zone 5 Priority Mail package has a very different cost profile than a 2-pound Parcel Select package entered at the Destination Delivery Unit (DDU). Similarly, within First-Class Mail, a presorted letter has a very different cost profile than a single-piece letter.

⁵ Rule 39 C.F.R. Section 3050.60(f) Report for FY 2019 (Summary Descriptions) (July 1, 2020), at 7-5—7-6.

⁶ Response of the United States Postal Service to Order No. 5687 Regarding Technical Conference Material (September 28, 2020), Seasonal Volume Variations and Product Costing, Prof. Michael D. Bradley (Bradley Presentation) at 25-26.

accurately quantified the unexplained cost increase, assigning it entirely to competitive products would fail the causality standard of cost attribution codified by the Postal Accountability and Enhancement Act (PAEA).⁷ (See, 39 U.S.C. §3631(b)).

Third, even if, contrary to fact, UPS's calculations were correct, this \$500 million shift of institutional costs to competitive products would not materially reduce the substantial contribution that competitive products make to cover institutional costs. That contribution was \$8.2 billion in FY 2019⁸ and continues to grow. Thus, UPS's questioning of whether package delivery is profitable at all is farfetched, at best, if not completely disingenuous. UPS Petition at 2.

Finally, while the PRC-approved postal costing methods used to estimate annual costs by product already substantially capture seasonal variations, improvements are always possible. We commend the Postal Service for researching opportunities to improve how the specific costing methods used for individual cost segments and components capture seasonality, Bradley Presentation at 23-27, and proposing improvements under established Commission procedures (39 CFR §3050.11). PSA agrees with the Postal Service that this is the right approach for improving costing methods. These procedures allow for thorough review of proposals and continuous improvement to the accuracy of postal costing.

Respectfully submitted:

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⁷ Pub. L. No. 109-435, 120 Stat. 3198 (Dec. 20, 2006). The PAEA amends many sections of title 39 of the United States Code. Unless otherwise noted, section references in these comments are to title 39, as amended by the PAEA.

⁸ Docket No. ACR2019, Annual Compliance Determination Report, Fiscal Year 2019 (March 25, 2020), at 86.